# NAVIGATING COMPETING INSTITUTIONAL LOGICS IN A DEVELOPING ECONOMY

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## Abstract

This paper examines how senior managers in a developing economy, Ethiopia, navigate between, and draw upon, the competing logics of 'state' and 'market' when seeking to explain their firm's business strategies. This fault-line is especially critical in such contexts. The empirical work is based on qualitative analysis of interviews with 22 senior managers in matched-paired case studies drawn from a state-owned bank and private sector bank respectively, supplemented with secondary sources. The study reveals how top teams develop shared dominant logics which are patterned in a manner which reveals that the degree of 'state-dependency' was the critical variable and that the notion of the 'market' was a subsidiary variable. By extending management dominant logic literature into the literature on institutional logics, the study reveals the complementarity of these logics and their consequences for the strategic orientations of firms.

Key words: Business strategy, Developing economy, Dominant management logic, Ethiopia, Firm ownership, Institutional logics

## INTRODUCTION

As used by Prahalad and Bettis (1986) as well as many others since (for example, Obloj, Obloj & Pratt, 2010), the idea of a 'dominant managerial logic' has been hugely influential in thinking about strategic management. As we were engaged in a study of managerial thinking and action in the highly contested and uncertain environment of a vibrant developing economy, this concept was appealing and we sought to use it. We were exploring the extent to which managers in Ethiopia drew upon western management thought. With that purpose in mind the concept of a dominant managerial logic seemed to offer a promising conceptual tool. In the conventional strategic management literature, the concept relates to the cognitive orientations of managers and their mental maps (Huff 1982; Nakani and Perez 2007; Prahlad and Bettis 1986). But it can have negative as well as positive consequences by limiting access to innovative ideas and divergent thinking and it can distort and limit top managers' strategies following mergers and acquisitions.

While we found the concept of a dominant managerial logic useful, it also seemed problematical in the highly volatile, wider political and economic, context which we were researching. To engage with this, we brought into play the idea of 'institutional logics' (Friedland and Alford, 1991; Dunn and Jones, 2010; Greenwood and Suddaby, 2006; Greenwood et al, 2010; Thornton, 2004; Thornton and Ocasio, 2008). Institutional logics have been defined as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality"

(Thornton and Ocasio, 1999: 804). This approach seemed highly pertinent to the volatile emerging economy context in which we were operating. While there are differences between the concepts of dominant managerial logic and institutional logic these are largely due to analytic frameworks and disciplines – the former developed within the strategic management domain and the latter in the sociological. Conceptually, they can be seen to overlap: while there are often multiple competing logics, one or more of these can come to dominate – at least for a while. Indeed, this tension between competing and dominant logics proved to be crucial to the research project we conducted.

We investigated how senior managers in the context of a developing economy responded to competing institutional demands of the state and the market and how their responses interplayed with their prevailing mental maps. This paper addresses the following question: *In a highly contested and uncertain developing economy environment, what logics do strategic level managers draw upon and how do these logics manifest themselves in organisational strategies?* The paper thus seeks to advance our understanding of the interplay between firm-level managerial logics and societal/field-level institutional logics in influencing top-level managers' decisions in private and public-sector firms in environments that send ambiguous and contradictory signals.

According to Prahalad and Bettis, the concept of a *managerial dominant logic* refers to how firms "conceptualize and make critical resource allocation decisions" (Prahalad and Bettis, 1986: 490). In the context in which we were working, the very survival of firms was at stake due to the inherently dynamic and volatile nature of the political and economic environment. In consequence, managers were required to interpret the environment in an active and vigilant manner. As firms strive to cope with the changing environment it becomes important for them to develop plausible business strategies, processes and practices which align with uncertain and changing priorities. Thus, we sought to track and interrogate managers' responses to these shifting sands by attending closely to their ways of thinking and their articulated accounts. What role might logics play in managerial strategizing in developing economies? The question is especially interesting in the context of those economies transitioning from a socialist economic system to a market economy as such contexts suggest truly fundamental shifts in underlying logics. A study of dominant logics in such settings offers the potential to further our understanding of the concept.

As sets of cultural beliefs and rules, institutional logics shape actors cognitions and behaviours (Dunn and Jones, 2010, Friedland and Alford, 1991; Greenwood et al 2010; Thornton, 2004; Thornton and Ocasio, 2008). A repertoire of available logics focus decision maker attention on specific sets of issues and solutions (Ocasio, 1997) and, consequently, they influence organizations' decisions. Key studies within western economies have been undertaken by Thornton & Ocasio (1999), Marquis & Lounsbury (2007) and Haverman and Rao (1997). Studies such as these show how institutional logics act as organising principles to align organisational practices with specific problems and rhetoric; they can help account for why organizations change and adopt new practices (Kono et al., 1998; Lawrence & Suddaby, 2006). But, the study of institutional logics in more fraught and challenging transitional economies are rare. Previous studies in such contexts focus on factors that constrain strategic transformation (e.g., pace of change (Newman, 2000), governance (Filatotchev et al., 2003), factor markets (Spicer et al., 2000), historical imprinting (Kriauciunas and Kale, 2006), network-based strategy (Peng 2000; Peng and Heath, 1996; Peng and Luo, 2000), and problems of legitimacy (Ahlstrom et al 2008). These studies leave a gap: how senior managers in transitional economies construct a patterned set of firm-level logics which maintain legitimacy within a fast-changing wider political-economic context. To address this, we seek to examine how firm-level logics intersect with field-level institutional logics as the latter were found to shape the underlying assumptions and beliefs about what actions and practices are desirable and appropriate in given institutional contexts (Lounsbury, 2007; Shipilov, Greve & Rowley, 2010; van Gestel and Hillebrand, 2011). Ethiopia, which exhibits many of the characteristics of a society and economy in transition, serves as a rich context within which to examine the interplay between 'dominant logic' and 'institutional logics'.

This paper makes three specific contributions to the literature. First, it provides insight into the use of dominant and institutional logics in the little examined context of transition/developing economies in Africa. It not only integrates strategic and institutional theories but also provides insights into how senior managers navigate through competing logics in order to legitimise their strategies and actions in environments characterised by high levels of instability, uncertainty and ambiguity. Second, the paper sheds light not only on the nature and consequences of institutional logics found to be at play, but also links these to the organisational features that encourage the use of them (Greenwood et al, 2010). It provides evidence on: (a) how ownership type, size, business experience and level of entreprepreurial orientation may help explain the link between senior managers' differentiated interpretations of the institutional rules at play and emergent business strategies and practices (Boyer, 2006); (b) how shifts in logics lead to variations in practices (Lounsbury, 2007; Reay and Hinings, 2005), the role of organisational structure (Thornton, 2002), and strategic orientation ( Lau and Bruton, 2011). Third, it is postulated that the insights drawn from this work may be relevant to other transition/developing economies where the government retains extensive control over resources and connections.

The paper is structured as follows. A review of relevant literature is presented in section two. Then, the research methodology is outlined in section three and the findings are presented in section four. Discussion and implications of the research are presented in the final section.

## THEORETICAL BACKDROP

### Dominant Logics

Obloj *et al*. (2010: 151) define dominant logic as 'the manner in which firms conceptualize and make critical resource allocation decisions and, over time, develop mental maps, business models, and processes that become organizational recipes'. Their use of this concept is similar to other terms such as 'mind-sets' (Nadkarni & Perez, 2007), 'interconnected choices' (Siggielkov, 2001), and 'strategic frames' (Huff, 1982). In their original formulation, Prahalad and Bettis (p. 491) define a dominant logic as a 'mind-set or a worldview or conceptualization of the business and administrative tools to accomplish goals and make decisions in that business.' One form of dominant logic is found in 'industry recipes' (Spender 1989). Spender explores the interplay between managerial discretion and contextually-bound knowledge of the kind circulating within certain industries. Banking represents one industry but the differences between our cases in this industry suggests that *additional to any prevailing industry recipes are other competing logics*.

There are two main relevant dimensions to the way dominant logics operate in the context of managerial action. First, dominant logics serve as an information filter: they help to organise the potentially chaotic inflow of information. Second, they provide the basis for establishing routines of action. Dominant logic as an 'information filter' draws on previous work on the content of managerial cognition and mind-sets (Boisot and Li, 2006; Gavetti et al, 2005; von Krogh, Erat, & Macus, 2000; and Walsh, 1995). Bettis and Prahalad (1995) and Bettis (2000) treat dominant logic as a knowledge structure that evolves over a substantial period based on experiences with the characteristics of the core business, tasks critical to success, performance measures and values and norms evolution. This knowledge structure works as a set of perceptual and conceptual filters that, as von Krogh et al., (2000) argue, 'sifts' information from the environment. Routines and learning form the second dimension of the dominant logic. Routines include 'specific corporate level functions' such as 'allocating resources, formulating business strategies, and setting and monitoring performance targets' (Grant, 1998; Obloj et al 2010: 153). Learning, on the other hand, occurs through actions and experience (March, 1996; Zander & Kogut, 1995) and later can become codified in organisational rules and routines (Miller, 1996). These dimensions are thus interdependent. The way in which this process occurs is explained by Boisot and Li (2006) who suggest that the 'codification' of experiences takes place and this is accompanied by abstraction that reduces 'the number of categories required for achieving a viable representation of the experience, and hence the entropy associated with them' (2006:320). These characteristics confront an unusual degree of challenge in an environment where the very fundamentals of business are open to deep questioning.

Antecedents of our work can be found in a clutch of related theories such as strategic choice, upper echelon theory, managerial discretion and managerial cognition. Hambrick and Mason (1984) helped to promote 'upper echelon' theory and argued that both strategic choices and organization performance are associated with the characteristics of the top managers in a firm. They found, for example, that top team tenure was associated with both strategy and performance.

The managerial cognition literature (e.g. Barr, Stimpert & Huff, 1992; Daft & Weick, 1984; Thomas, Clark & Gioia, 1993; Nadkarni & Barr, 2008) is also relevant here. Daft and Weick (1984) view organizations as 'interpretation systems'. They observe that building an interpretation of the environment is a basic requirement for leaders of an organization. In other words, contrary to many assumptions, organizations are not singular, rational systems but complex systems which filter and process information. Individual members come and go but organizations preserve knowledge, behaviours and mental models over time (1984: 285). There is a process of scanning, interpretation and learning. Similarly, Barr et al (1992) point out that organizational renewal requires top managers to make timely adjustments to prevailing mental models. Too rigid an adherence to an extant mental model limits responsiveness and agility. Thomas et al (1993) likewise point to a link between strategic sensemaking and organizational performance; for them a key variable is perceived 'controllability'. Nadkarni and Barr (2008) focus on the links between environmental context, managerial cognition and strategic action. Each of these contributions attend to the disconnect between the somewhat deterministic accounts of industry structure versus the cognitive – i.e., variants of the scope for discretion perspective. The managerial cognition literature is helpful in foregrounding the importance of managerial interpretations of the environment – precisely the theme of our research in Ethiopia. What we seek to add to this is the related body of work on competing institutional logics in a turbulent context.

An important aspect to this are the related concepts of ‘strategic choice’ (Child 1997) and ‘managerial discretion’, or, as Hambrick and Finkelstein (1987) term this, ‘latitude of action’. High discretion contexts increase the potential for senior manager impacts on outcomes (Finkelstein and Boyd, 1998). The degree of such discretion is thus highlighted as an important variable. Indeed, Wangrow et al (2014) argue that to act upon strategy requires discretion and an understanding of the scope of the ‘zone of acceptance’ among the external controlling parties. This is a crucial issue in the Ethiopian context. Drawing on a review of the literature on managerial discretion, Wangrow et al show how there are strong links between discretion and a range of variables including organizational outcomes and, of special significance for us here, upon a commitment to, or departure from, predetermined activities. The protectionist economic policies of the Ethiopian government in the financial sector might imply low discretion among the bank executives in both of our cases. While, the managers may agonize over competing logics but their capacity to make meaningful choices may be constrained.

How might a dominant logic establish itself in a context such as that found in Ethiopia where a strong legacy of state planning remains (with many of the institutional supports and cultural artefacts still in place) whilst a new market-focused logic is simultaneously championed? In ambiguously and rapidly changing environments such as that typified by Ethiopia, an appropriate managerial dominant logic that fits to the new world order should presumably provide a valuable advantage when compared with legacy logics based on assumptions of state preferment and selective protection.

**Institutional Logics**

Institutional logics are socially shared, deeply held assumptions and values that form a framework for reasoning, provide criteria for legitimacy, and help organize time and space (Friedland & Alford, 1991; Thornton, 2004; Thornton & Ocasio, 2008). Embodied in practices and ideas, institutional logics help shape the rules of the game. They originate within and are maintained by the professions, corporations, the state, the market, the family and religion (Friedland and Alford, 1991, Dunn and Jones, 2010; Thornton, 2004). There are ‘two strands of research’ in this area (Shipilov and Rowley, 2010: 846). The first strand has sought to examine how a dominant institutional logic originates, either reinforcing the spread of a practice that conforms to the increasingly dominant institutional logic (Thornton, 2002) or accelerating the abandonment of an old, increasingly illegitimate logic (Davis, Diekmann, & Tinsley, 1994). A second strand of research has focused on showing how contention between opposing logics leads to fragmentation of institutional fields (Marquis & Lounsbury, 2007; Shipilov et al 2010). More recently a third strand of research has sought to examine how hybrid organisations respond to multiple logics (for example, Kodeih and Greenwood, 2014; Pache and Santos, 2010). This paper primarily draws on the first and the third strands.

There is a well-established link between logics and practices (e.g., Lounsbury 2007; Thornton, 2002). It is recognised that organisational fields are usually typified by multiple, often conflicting logics (Reay and Hinings, 2005, Reay and Hinings, 2009; Greenwood, et al. 2010). Yet, understanding about how, and in what contexts, organisations use multiple, competing, logics is limited. Such understanding is particularly important in transition economies context where firms face a situation in which institutions and their responses often change rapidly due to ‘weak’ formal institutional frameworks and normative and cognitive institutions that are not necessarily supportive of managing businesses in an evolving free market environment (Busenitz, et al., 2000). In transitionary situations (as in Ethiopia) there is likely to be uncertainty about which institutional logics will shape the cognitions and behaviours of senior executives as they seek to enact the transition to a new market-oriented economic environment. In such environments, firms may combine competing (sometimes even contradictory) institutional logics which may ‘increase the flexibility or the scope for strategic actions’ (Jackson, 2009: 609) yet, conversely, may stymie decisive action due to the levels of uncertainty.

In sum, the concepts of dominant managerial logics and institutional logics may be seen as essentially complementary. They both challenge the idea of open managerial discretion but in rather different ways.

Building on these theoretical frameworks we set out to uncover how senior managers in the transitionary context of modern Ethiopia would explain their logics of action; through this method we seek to gain further insights into the operation and influence of institutional logics and dominant managerial logics.

**Case Study Context**

Ethiopia is the second most populous country in Africa, is widely known for over dependence on a volatile agricultural economy that is susceptible to recurrent severe droughts, an unstable political situation and disruptions caused by a long term civil war (Woldesenbet, 2007). The political process that brought first the Derg (the socialist regime) and then the current government to power (in 1974 and 1991) was both unpredictable and violent. The recent study concludes that ‘economic insecurity pervades Ethiopia’s modern history, with the rule of law, the enforcement of contracts and the security of property each configured on a shaky political base’ (Geda, 2008: 116).

The formal institutional framework in Ethiopia is weak and unstable. It is characterised by high levels of market imperfections, the absence of market-supporting institutions, low contract-enforcing mechanisms, underdeveloped infrastructure and communication networks and slowly evolving judicial system which is strictly controlled by the ruling party and the government (Miller *et al*. 2011; Woldesenbet, 2018, forthcoming; Woldesenbet and Storey, 2010; World Bank, 2009). The country’s financial system remains underdeveloped. As of 2015, it has only three state-owned and 16 privately-owned banks with the total of 2693 bank branches which ‘serve’ over 90 million populations. Stock exchange and capital markets are not yet operational. Industrial structure is dominated by a relatively small number of government-owned firms and conglomerates, featuring a high degree of market concentration, and is characterized by relatively high administrative barriers to entry (Ciuriak and Preville, 2010).

Further, the state-owned firms in strategic sectors (financial, energy, and communication sectors) and enterprises affiliated to the ruling political party are buffered by the government from competitive and market forces (Woldesenbet, Storey and Salaman, 2007; IMF, 2008; Miller *et al.* 2011). Government development policies provide business opportunities for enterprises in ‘strategic’ sectors when many other enterprises are exposed to cut-throat competition. These situations have created *‘state-favoured’* contexts for conducting business activities. Enterprises embedded in strong networks with the politicians in power (state-and party-owned firms) are the primary beneficiaries of any resource allocation by the government and are perceived to have an insider information about, and preferential access to, mega public sector contracts (Woldesenbet and Storey, 2010). In contrast, managers in the private sector might be expected to use more informal substitutes because they have less ability to use state-based networks. The underdevelopment of market supporting institutions and the biased view of private sector operatives by influential actors in the environment may compel the latter to form distinctive dominant logics to shape the ‘rules of the game’ in their favour.

## METHODOLOGY

### Research Design

A matched –paired case study approach was deployed for data collection. There were three reasons for this. First, this approach ‘enables comparisons that clarify whether an emergent finding is simply idiosyncratic to a single case or consistently replicated by another case (Eisenhardt & Graebner, 2007). Second, this research strategy helps to answer the “how” and “why” research questions in unexplored research areas (Edmondson & McManus, 2007) and when the context is not well understood. Third, this approach makes the assumptions underlying the selection of cases more explicit, and hence they facilitate transparency (Nielsen, 2011)

Using a matched-pair logic, two organisations were purposively selected because of similarity in industry (banking) and the market in which they operate, as well as for a difference in ownership (the incumbent state-owned bank versus the recently-formed private bank). This approach allowed comparisons to be made between the two senior managerial teams in terms of the kinds of strategic logics they employed (see also Nielsen, 2011). Access to a sizeable group of Ethiopian senior managers was time-consuming and difficult. It was secured through arduous negotiations over several months facilitated by a wide variety of gatekeepers in formal and informal networks that emerged via a snowballing method. The basic profile of the two banks is shown in Table 1.

[TABLE 1 ABOUT HERE]

'Statebank' had been established according to the laws of Ethiopia in 1942. The only shareholder is the state. It has a very strong resources base: human and financial capital, assets, customers, and widespread branch networks. In 2014/15 it had 977 bank branches (36.3% of all bank branches in the country), 44.7 per cent of credit market, 72 per cent of deposit accounts and 12,524 employees. In contrast, the private commercial bank is the first private bank to be established as a Private Limited Company in Ethiopia and it started banking operations in February 1995. As of June 2015, it had 5,847 employees, 207 bank branches and had about 5 per cent of credit market and mobilised over 19 billion Ethiopian Birr in deposit (see Table 1 above).

Both firms operate in the banking sector, serve a similar customer base and face the same regulatory environment. Further, the two banks operate in buffered, less competitive, financial market due to the policy restriction in place that prohibits the entry of foreign financial intermediaries into the country. However, they differ in ownership and size.

**Data Collection and Analysis**

We triangulated a range of data sources. The main method was a programme of face-to-face interviews. These were conducted with senior managers across the two banks, and with national-level experts, analysts and policy makers to frame the research context. These data sources were supported with a body of secondary sources including organisational reports, industry reports and other forms of relevant data.

The face-to-face interviews with 22 senior managers in different functional areas were conducted in 2015 to obtain a wide spectrum of perspectives. The respondents were senior managers and were members of the organisation's decision- making body and hence were able to provide temporal accounts of their interaction with the environment and the strategies used and considered.

A semi-structured interview protocol was used for teasing-out managers' interpretations of their experience of the business environment and changes within it; the ways in which they adapt to, and cope with, the demands of organisational context; the types of plausible business strategies and related actions and practices considered 'appropriate'. Semi-structured interview questionnaires provide some direction to respondents while also permitting additional open responses beyond the initial question. These face-to-face interviews averaged around 90 minutes. Interviews were recorded verbatim and transcribed professionally for coding and analysis. Respondents were assured of anonymity. The researchers were conscious of the potential difficulties of being seen to impose confessional-style interviewing of a western tradition in this very different context. Other sources of information included archival and published materials about the case study organisations, relevant publications on Ethiopia by international organisations, industry/sector reports, research and materials from government agencies.

As is typical in inductive research, we began with in-depth analysis of each case from the perspective of our research question (Eisenhardt, 1989; Yin, 2009). Two researchers read the cases independently to form their own views of each narrative. The goal of this within-case analysis was to identify themes and patterns for each case independently, in relation to the research question of understanding the role of various logics in organisational adaptation and responses.

We then turned to matched-paired case analysis in which the insights that emerged from each case were compared with those from the other case to identify consistent patterns and themes across the cases (Eisenhardt, 1991; Yin, 2009). Major themes and constructs were grouped by patterns of interest to facilitate comparisons. Significant discrepancies and agreements in the emergent analysis were noted and subjected to further exploration with the data. During the data analysis phase, we were conscious of the need to minimise researchers' bias by being reflexive and establishing consensus in our interpretation.

These research methods helped us to discover variations and similarities in the ways in which managers in these two firms developed plausible business strategies

## FINDINGS AND ANALYSIS

### Differentiated Responses: Selective Blending and Legitimising

Senior managers of organisations need to respond to competing, sometimes even outright conflicting logics, in order to have access to resources and for legitimation purposes. *Prima facie*, both case study organisations faced similar market, competitive and institutional environments (regulative, normative and cultural/cognitive) and hence one would expect that they drew on similar institutional logics when making strategies and adopting practices. However, the two banks examined were differentiated by the extent to which they drew on competing institutional logics and the ways in which they responded to these logics. The private bank's response was shaped by a need to secure legitimacy for its use of 'market' logic while also claiming some legitimacy in its social contribution through, for example, its innovativeness and efficiency. The senior managers in the state-owned bank felt more secure in their public service but tried also to supplement this with claims associated with effectiveness and efficiency in keeping pace with private sector organizations. They sought to hybridise ideas informed by both logics. The inductive analysis of interviews showed how both firms drew on state and market institutional logics but in different ways. The menu of ways in which these logics could be manifested is shown in Figure 1.

[FIGURE 1 ABOUT HERE]

*Selective Blending by the State Bank*

The data analysis revealed that the state-owned bank selectively blended prescriptions of both logics. In an initial phase of a transition period, the state bank managers perceived changes in the environment as threat, but such perceptions changed positively as the transition to market-orientation progressed. The key organisational manifestation of institutional logics included impression management to show that they can manage the Bank in a commercial manner, adopting the prescriptions of the financial sector reform and capacity building programmes for organisational transformation, establishing close strong ties with the government and showing commitment in fulfilling the state-expectations for 'development'. We conceptualised this as *'selective blending*, as they were able to draw on ideas from both logics. Due to their political appointment, the Statebank managers had very close ties to the government and access to political power. Such networks and power were pivotal for state-owned bank managers to have access to timely information, resources and state-sponsorship. The Statebank managers developed networks to access insider information relating to policies, markets and regulations to their advantages. The Statebank managers used government reform, restructuring and capacity building programmes as a frame of reference for organisational transformation, change management and to identify, develop and execute business strategies. Indeed, senior managers used 'institutional transformation' logic as a subset of state logic, as this was cascaded from the above and used as a frame of reference to undertake bank-wide organisational changes. One of the senior Statebank presidents explains:

> As a state-owned institution, the government appoints senior executives and establishes a Board of Directors to oversee the activities and performance of this bank. We enjoy considerable support from the government when developing strategy and engaging in bank-wide transformation programmes. The financial sector reform programme and the establishment of an authority which looks after and oversees the state-owned banks and an insurance company have been supportive in informing our strategic direction. Our mission, vision and values are thus informed by the concurrent government policy and initiatives.

The Statebank also benefited from international professional consultancy services such as Ernst & Young and the Bank of Scotland to help undertake organisational transformations. Importantly though, senior managers in this bank were not limited to only drawing on the 'state' logic. Several senior managers of Statebank were concerned about the competitiveness of the banking market as the private banks were making a significant stride in taking market share in deposit, loan, capital and branch networks. So, they were compelled to take actions for impression management and organisational transformation to cope with competitive and market pressures. One of the vice presidents identified '*service delivery capacity and efficiency'* as having become *'the only differentiating factors given similar products and price structure of the banking industry'*. Thus, they were positioning the Statebank with reference to differentiated products and pricing strategy, and quality customer service. There were two reasons for this. First, the opening of the banking market for domestic competition during a transition period meant that senior managers also had to interpret the market and competitive environments and to work out 'what constitutes appropriate behaviour and how to succeed' (Thornton, 2004, p.70). Second, there was the need for managers to legitimate their decisions and actions to external and internal stakeholders through the adoption of best business practices.

The foregoing analysis shows how managers use hybridised practices/strategies drawing on both logics when dealing with the environment in which their bank operates. Senior managers facing, on the one hand, the top down changes imposed by the state, and the market competitive pressure, on the other, sought to negotiate the interplay between the two competing logics. This analysis is in line with the work of Seo and Creed (2002) which illuminates the subtle interplay between institutional embeddedness and transformational agency in institutional change. It is also in accord with the study that highlighted the role of change agents and their power in shaping the character of change in the public sector (Townley, 2002).

*Legitimacy building by the private bank*

The previous socialist system had categorised the private sector as illegitimate. According to one of the respondents 'there is no proper private sector' in the country because it was effectively destroyed by the previous regime. Such historical contingency points to the need for entrepreneurs to consider legitimacy-building as crucially important for their emergence, survival and business conduct. Thus in the private bank, managers focused on actions and practices aimed at ensuring the legitimacy of their firm. At an initial phase of a transition, these actions and practices included securing licensing and adherence to rules and regulations, adopting industry specific processes and procedures, and engaging an informal networking. Each of these three types of practices were related to ensuring legitimacy of the firm by demonstrating a social orientation as well as a purely commercial one.

An analysis of the data suggests that the Privatebank's decision making and actions were, however, shaped primarily by a 'market' logic. The market as both an economic and institutional structure was the prime point of institutional reference. This Privatebank had much less access to political power, and the ties to the government were relatively weak. But, the senior managers in this bank were aware of the opportunities available due to the development policy that favours firms in strategic sectors (e.g., financial, energy, telecommunication, export) and they sought to take advantage of this. Most of top executives in Privatebank had been senior managers in the state-owned banks during the socialist regime and had a sufficient experience of state engagement with businesses to know how to take appropriate actions such as how to co-opt government representatives onto company boards. The vice president observed:

> *Most of our senior management were ex-senior managers in the state commercial bank. For example, the president was the managing director of the state commercial bank and then the governor of the National Bank of Ethiopia. I also served in various senior management positions over two decades. So, we have a very capable and experienced management team that understands the banking business, the character and types of customers and the ways to cope with state rules and regulations.*

Such experience helped the Privatebank senior managers to use informal networks with some influential actors and capitalise on their shareholder base to validate their business operation as desirable and appropriate in a changed business environment. Heavy reliance on the market as an organising principle for their decisions and actions showed their commitment and appetite for risk taking. For instance, one of the vice presidents of the Privatebank explained the then beliefs and how such beliefs shaped the consequential actions:

> *We hoped to grab opportunities enabled by changes in policy environment which allowed private businesses to operate in this country. However, it has been a challenge for us to plan and to, acquire the necessary resources and to manage the business due to ambiguities and uncertainties. ..... we sensed that businesses are clearly demarcated along ownership lines which provide them with differential access points to resources and markets. In consequence, we thought that our existence depended mainly on serving our customers and shareholders whilst being alert about the frequent twists and turns in government policy and regulations*.

The Privatebank managers saw this aspect of government policy as a time-bound opportunity that could and should be exploited. Despite the advantages to be had from the current policy which bars entry of foreign financial institutions, they saw it as limiting their scope for action. They were, for the time being at least, highly alert to signals from the government concerning commitment to open international markets. They sensed the influence of the most powerful actors making it difficult to take advantage of a fully-fledged market operation and hence they gave priority to becoming a customer-focused organization. The market logic guided 'organising' and provided these managers 'with rationales for action' (Dunn & Jones, 2010:114).

Thus, one possible explanation for such a differentiated application of logics can be traced back to one of the salient organisational features, the ownership type, and the associated sponsorship-base. While Privatebank managers were willing – and were impelled - to consider rapid and sustained growth in marketplace, they were in fact rather more timid and uncertain about this when compared with senior managers in the state-dependent bank.

**Links between Logics and Organisational Strategy and Practices**

Consistent with previous research, this study found a link between the logics, plausible organisational strategies and processes and routines underpinning the chosen strategies (Greenwood et al, 2010; Lounsbury, 2007; Thornton, 2002, 2004). An interesting and novel observation here is the fact that both institutional logics and firm level logics could be considered complementary and not binary. Managers in the state-owned bank were optimistic about the business environment. For example, one of the senior presidents argued:

> *The political and policy environments are conducive to the banking industry in general and [The Statebank] in particular. Restriction of entry of competing international banks into the market is the major advantage for [Statebank] to continue its dominance in the domestic financial sector and it gives the Bank an opportunity to consolidate itself in terms of structure and systems and upgraded managerial skills. The legal environment is also favourable for vibrancy and effectiveness of the financial sector. The introduction of the foreclosure law, for instance, helped us to recover payment from the defaulting customers. The recent economic growth is also another factor for the Bank's business expansion.*

These analyses were closely linked with their state-favoured logics. In contrast, senior managers in the Privatebank were less confident and were more pessimistic about their organisation's current and the future direction. For example, a senior manager in the private sector bank observed 'None of the private firms in the financial sector are fully capable competitors against the dominant Statebank or the multinationals'. This observation could in part be linked to the smaller size and limited business experience of the private banks but in general the wider pattern of discourse suggested that it was the perceived state-sponsorship and partiality towards the state-owned bank which figured most prominently in the managers cognitions. For example, managerial interpretations such as 'people need to have confidence in the environment in order to invest'; and …'there is no level playing field'; … 'policies and regulations change unpredictably and unexpectedly undermining the business confidence'; … 'still the party and the government play predominant roles in the economy' all help to reveal their interpretations of the business environment as threatening, unstable and biased in favour of the state owned enterprises. They reported that they found it difficult to develop sustainable networks and that the state enterprises with their huge resources remained mainly the customers of the state-owned bank.

The use of management dominant logics by both firms showed degrees of similarities and differences. In line with the literature on learning and adoption of routines, which relate to set corporate function and strategy formulation (Obloj *et al*. 2010; Prahalad & Bettis, 1986), this study found that: (i) the dominant logics reflected the shared mind-set of senior managers within a given firm and shaped the identified business strategies with their underlining processes and routines; and (ii) both firms experienced a diverse set of dominant managerial logics with associated simplifying rules at organisational level and, in consequence, they followed different business strategies (see Table 2 below).

[TABLE 2 ABOUT HERE]

*Defending and prospecting strategic posture*

The dominant logic in the Statebank, backed by the confidence in ongoing state-sponsored support, large size and decades of experience, was to make it a 'globally competitive commercial bank operating with best international practice'. The data analysis revealed that the state-owned bank's strategic posture changed from defensive to proactive during a time of transition. The initial phase of a transition entailed the state bank managers to change their mental models because of the changes in the environment and an inevitability of 'market' emergence. Thus, in the first 15-20 years of transition into the market-oriented environment, managers' interpretation of the environment, learning and use of simplifying rules led to allocation of resources primarily to improve the efficiency of the banking services and, to assess its capabilities and weaknesses. This efficiency enhancement was to be achieved by the two-pronged strategy: implementing business process reengineering and related organisational restructuring, and adoption of 'customer-friendly' banking technology (Figure 1 and Table 2). These were actions of a large magnitude and showed that the bank was an active defender of its strategic position. Such defensive actions were enabled because the Statebank had significant slack resources and institutional support from the government. Commonly shared managerial scripts reported to us included: 'Business process reengineering improves processes in operational areas'; … 'We need to provide service through customer-friendly banking technology'; … 'adopting benchmarking and best practices from abroad is essential for our successes'. Taking actions consistent with those of a large magnitude is consistent with the findings that organisations tend to engage in more risk-taking behaviour when faced with the situations described as presenting a 'potential loss' (Tversky and Kahneman, 1974) and when they interpret the environment as a greater threat than normal (Staw, et al. 1981). Defining core competences, developing organisational capabilities, and emphasizing efficiency are examples of internally-oriented actions that characterise 'defenders'.

From 2000 onwards, however, the bank's strategic posture became increasingly *prospective (see figure 1 and Table 2)*. The three main manifestations of changes in its strategic posture were new product development, diversifying the customer base and a recent shift from credit logic to a resource-mobilisation logic. These were externally oriented actions. Further, performance monitoring practices, learning by doing, regular management meetings, emulating apparently 'successful' practices from overseas were used as a learning mechanism which informed subsequent behaviours and actions (see Table 2).

*Entrepreneurial strategic posture*

The Privatebank's strategic posture evolved from the founders' entrepreneurial commitment. They galvanised support to mobilise resources for paid-up capital and to start a banking business. These actions helped to communicate their endeavour in a changing environment and to build confidence that the founders could be trusted in their business conduct. Without such entrepreneurial orientations, the Privatebank managers sensed difficulty of attracting wider shareholder and customer bases because 'stakeholder support is more likely for those organisations that are old, cognitively legitimate … reliable and accountable...' (Choi and Shepherd, 2005: 573).

The Privatebank business strategy was thus characterised by an *entrepreneurial posture* in that they were active in opportunity-seeking and navigating through contingency by intentional actions and creative reaction.  Though initially it focused on organisational structure and capabilities, the bank displayed external orientation through innovation, realising opportunities and making their service accessible (see Figure 1). For instance, the Privatebank's business model was based on organic growth through branch expansion and making their services accessible and building their shareholder base (see Table 2).  A senior manager explained:

> *We sought to build our shareholder base, increase our operational capacity and to get closer to customers.  Hence, the focus of our strategy was branch expansion and providing a satisfying customer service including the use of modern banking technology*.

The senior team opted for incremental market expansion, primarily through growth in the number of branches and the development of its human resources. These strategy elements were complemented with new banking technology, primarily, to improve efficiency in transaction processing and reporting (Table 2).  Representative managerial scripts such as 'more branches more customers'; … 'we make our services accessible and closer to people'; … 'employees are our valuable resources', served as simplifying rules for implementing these strategies. Regular management meetings, performance reviews and on-the-job trainings acted as a learning mechanism through which detected weaknesses were to be addressed. But these attempts to secure efficiencies and to be competitive were not matched by a confidence to expand in other, more ambitious, ways.

In summary, the foregoing analysis indicates that senior managers in both banks were active in the search for legitimacy and that they were acutely aware that the future of their organizations, even their very survival, was dependent upon their ability to scan the environment and to draw upon appropriate logics when devising the required strategic responses. The analysis also shows that senior players were able to draw on multiple and even apparently competing logics. The description of strategies, practices and actions reported in the bottom quadrants of Figure 1, and in Table 2, provided evidence of the complementarity of the field-level and firm level logics. For example, the state-favoured logic of the Statebank played a significant role in shaping their senior managers' sensemaking of the environment, their view on required organisational changes, and their stance on appropriate behaviours and actions. The government-led capacity building and financial sector reform programmes signified the need for a market-focused logic which, in turn, guided resource allocations and the adoption of matching practices and processes.

In the private bank, shareholder logic was used as a subset of market logic to build the capital base of the business and make sense of changes in the environment. These two logics were complemented by actively monitoring signals coming from the state institutions.

The defending and prospective strategies of the state-owned bank and the entrepreneurial strategic posture of the private bank, showed the senior managers' assessment of the crucial importance of the customer base and customer expectations.  Perceived customers' expectations were translated into observable strategy practices and actions such as the introduction of customer-relationship management, improving the service quality and outreach, the development of new products, improving processing efficiency, and developing skills and competence of their staff. Senior managers' account such as 'Customers want us to improve service quality and service breadth'; and their view that 'ATMs, mobile banking, internet banking, etc., are enhancing the customer service'; and 'our strategy is business growth and service excellence' showed the emphasis on customers.

Notably, the two organisations varied in their dominant managerial logics and, in consequence, they pursued different business strategies and gave different priorities to different elements of their strategy. The results indicate how the societal setting shapes the dominant logics and how these in turn influence firms' behaviours and business strategies. Comparing the pattern across the two cases, the dominant logic of the state-owned bank demonstrates a higher level of proactivity compared with the private sector bank. Although this finding was surprising at first, a deeper examination revealed that the source of this was the confidence engendered among senior managers in the state-owned bank by a knowledge of continuing strong partnerships that managers in these firms had forged with state actors who were able to offer resources and protection.

## DISCUSSION, CONCLUSIONS AND IMPLICATIONS

Using the concepts of 'dominant logic' and 'institutional logics' this study examined the interplay between them as senior managers engaged in strategizing in the context of a developing economy. The two sets of managers (one set from a state bank and the other from a private sector bank) differed in the ways in which they drew upon the available institutional logics in order to construct their strategic stances. Managers in the state bank used a selective blending of public-service/state-oriented logic with a market-based set of logics based on defending and prospecting. In contrast, managers in the privately-owned bank advanced predominantly an entrepreneurial orientation as the prime basis of their claim to legitimacy; though they did contend that this was itself a route to making a public-service contribution.

When we juxtaposed the institutional logics and the dominant managerial logics as in Table 2, the differences between the two dominant logics led on to diverse strategies. In response to the potential within a state logic, the state bank managers committed themselves to a 'developmentalist' state expectation. They adopted practices informed by capacity building as a policy objective. They offered subservience to the proposition of unquestioned mobilising of resources in order to finance development-oriented mega projects as directed by the government. In contrast, managers in the private bank handled the state logic in a more loosely-coupled manner, that is, by incorporating ideas of licensing and regulatory conformance including the ready adoption of industry rules and procedures. They also sought legitimacy through a social orientation realised through their role in creating jobs and making their services accessible to consumers: both enabled by their entrepreneurial and innovative modes of enterprise.

Overall, we can conclude that the institutional and management dominant logics are complementary and that the two sets of managers reach their own collective dominant logics having negotiated the various institutional logics. The Statebank case demonstrated how an organisation's strategies and practices were shaped by the selective use of both of these logics and how such use could vary over time. In contrast, the Privatebank's business activities were primarily shaped by a market logic. The main reason for this was the fact that senior managers in the private bank lacked confidence in their claim to the required legitimacy and likewise lacked confidence in the necessary political backing to access state-sponsored resources. In consequence, senior managers in the private bank faced equivocality and ambiguity when dealing with the state. Perhaps not surprisingly, managers consequently believed that their organisational success depended more on meeting changing market needs and coping with competition. A market-constrained interpretation thus shaped senior management's dominant logic, business strategies and underlying routines and processes at organisational level.

Based on the matched pair cases studies, the paper casts light on dominant logic formation processes that underpinned senior management's strategic response to a rapidly unfolding and extremely uncertain business environment. It casts doubt on the openness of managerial discretion indicating instead the bounded-nature of managerial strategic choices thus adding to the insights of Hambrick and Finkelstein (1987) and Wangrow, Schepker and Barker (2014). Our analysis makes clear the co-existence of market-oriented and state-oriented logics shaping management dominant logics at an organisational level. Ownership type, was found to be the significant determinant in the use of state and market logics for providing a framework for reasoning, and concomitant criteria for legitimacy and appropriateness of organisational practices (Greenwood et al 2010; Thornton and Ocasio, 2008). Thus, to what extent firms were able to access the required resources and business opportunities were shaped by the extent to which they were relied upon the competing logics of the state and the market. The study shows that the senior managers of the state-owned bank was more informed, better advantaged, and more embedded in the state logics and as a result, were more able develop strategy and competence which enable the exploitation business opportunities than the Privatebank management (Haveman & Rao, 1997; Kraatz & Moore, 2002).

One of the key conclusions of the study is that senior managers in the state-owned bank were more ambitious and confident than managers in the private bank. The study argues that currently there are institutional reasons (funding, sponsorship, privileged access to knowledge, resources, markets and people) and legacy reasons (command and control economy and socio-cultural) which help explain why these senior managers in general tended to prioritise state over market.

The main contribution of this study is its focus not only on the nature and consequences of dominant firm-level logics but also on the sources that shape them and the constraints on managerial scope for discretion. We show how the structural location of strategic actors limits as well as enables their choices when seeking to construct a dominant logic from the repertoire of competing logics. The study shows how shifts in the institutional logics (from legacy to either market dependent or state-favoured or to both) created differentiated organisational strategies and prioritising of different strategy elements. This analysis thus adds to the previous studies that demonstrate how changes in logics result in different outcomes such as variations in practices (Lounsbury, 2007; Reay & Hinings, 2005) and organizational structures (Thornton, 2002) as well as studies that seek to identify the forces that cause shifts in the attention to particular logics (Dunn & Jones, 2010). This study, therefore, underscores the contested and competing nature of institutional logics within a given institutional environment.

**Implications, Limitations and Future Research**

The first research implication is that the variation in dominant logics across organisations in different socio-economic contexts can challenge prevailing assumptions about attitudes to risk and strategic development. These logics also underpin contrasting firm level growth strategies. Future research could usefully delve deeper into the range of alternative growth strategies considered by managers in these conditions and the ways in which they evaluate these alternatives.

Second, the paper develops the point made by Boyer (2006) which notes how senior managers embedded in different organisational contexts, holding contrasting interpretations of the institutional rules at play, engage in divergent clusters of practices (see Boyer, 2006). In so doing, it adds to the work of Lau and Bruton (2011) who examined the strategic orientations of business ventures in China and Russia in relation to the institutional legacies in these countries. This study supplements their conceptualisation by clarifying the interplay of dominant logics and institutional factors and revealing more about the way in which senior managers navigate between state and market logics.

The analyses of findings of this study point to a number of avenues for future research. The Ethiopian case is a constellation of different bits of the developmental state models adopted predominantly from the East Asia and China. Whilst the Ethiopian case shows similarities to the South Korea, Indonesia and Malaysia experience in achieving rapid poverty-reducing economic growth, it differs from them in that it did not allow the private sector to lead economic and market development. Hence, future research should focus on the underlying features of developmentalist state logics which encourage or constrain the market development in different contexts such as in Sub-Saharan Africa and transition economies.

The findings and conclusions of this study also need to be considered alongside its limitations. Multiple variables such as organization size and customer expectations which one might expect to make a difference in strategy were not directly studied here. The methodology which was used (social construction theory with an emphasis on the repertoire of logics used by interviewees) allowed for such variables in so far as senior interviewees were given scope to reflect on their own interpretations of key forces and factors as important. The picture we paint is drawn from the perceptions and cognitions of the key actors.

The study was conducted in a single country and in matched-paired case study organisations in only one sector. The patterns found could be tested more fully in other African and Asian countries, where different institutional arrangements prevail. Moreover, other industry sectors could be usefully compared, offering some variation to the organisational fields examined.

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**Figure 1: Manifestation of Logics in Organisational Strategies and Practices**

**Strategic responses**

| | SELECTIVE BLENDING | LEGITIMISING |
|---|---|---|
| State | • Managing impression<br>• Adapting to financial sector reform programme<br>• Maintaining close government ties<br>• Development-orientation (fulfilling 'developmentalist' state expectations) | • Adopting industry specific processes and procedure<br>• Licensing and regulatory compliance<br>• Social orientation<br>• Informal networking |
| | **DEFENDING TO PROSPECTING** | **ENTREPRENEURIAL** |
| Market | • Threat focused/optimistic<br>• Improving efficiency (BPR & adopting banking technology)<br>• Codification of routines<br>• Innovative (developing new products)<br>• Diversifying customer base<br>• Shift in business logics- credit to resource mobilisation | • Commitment for uncertain outcomes (risk taking)<br>• Galvanising support via entrepreneurial leadership<br>• Contingency for intentional actions and creative reaction<br>• External orientation<br>• External Opportunity seeking |
| | Statebank | Privatebank |

**Strategic posture**

**Table 1: Profile of the Case Study Organisations**

| | Years in operation | Capital (million Br) | Branch | Employees | Deposit (million Br) | Loans & advances |
|---|---|---|---|---|---|---|
| Statebank | 75 | 10,716.4 (34%) | 977 (36.3%) | 18524 | 193,320 | 33715.5 (44.7%) |
| Private Bank | 20 | 2540.3 (8.1%) | 207 (7.7%) | 5847 | 19, 506 | 3723.6 (4.9) |

Source: National Bank of Ethiopia 2014/15 Annual Report, Privatebank 2014/15 Annual Report and Statebank 2013/14 Annual report.

**Table 2: Firm Level Dominant Logics and Business Strategy**

<table>
<tr><th>Organisations</th><th>Firm level dominant logic</th><th colspan="3">Learning and Routines (for decision-making & resource allocation)</th></tr>
<tr><td rowspan="3">Statebank</td><td rowspan="3">Globally competitive bank with best international practice</td><td>Main strategy</td><td>Simplified rules</td><td>Learning</td></tr>
<tr><td>Proactive</td><td>• New product development<br>• Customer relationship service<br>• Adoption of benchmarking and best international practices</td><td rowspan="2">• Performance monitoring<br>• Learning by doing<br>• Regular management meeting<br>• Emulating behaviour and practices from overseas</td></tr>
<tr><td>Defensive</td><td>• Process improvement<br>• Customer-friendly banking technology</td></tr>
</table>

| | | | | |
|---|---|---|---|---|
| **Privatebank** | Entrepreneurial | Organic Growth | • Branch expansion<br>• Increasing shareholder base<br>• Customer orientation<br>• Banking technology | • Regular management meeting<br>• Performance reviews<br>• On-the-job training<br>• Informal networking |